Supporting Statement for
30 CFR Part 216, Production Accounting;
Subpart A, General Provisions; and
Subpart B, Oil and Gas, General
(Forms MMS-4054 and 4058)
(OMB Control Number 1010-0139)
(Expiration Date: August 31, 2006)

A. Justification

1. What circumstances make this collection of information necessary?

The Secretary of the U.S. Department of the Interior (DOI) (Secretary) is responsible for collecting royalties from lessees who produce minerals from leased Federal and Indian lands. The Secretary is required by various laws to manage mineral resources production on Federal and Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. The Secretary also has an Indian trust responsibility to manage Indian lands and seek advice and information from Indian beneficiaries. The Minerals Management Service (MMS) performs the royalty management functions and assists the Secretary in carrying out DOI's Indian trust responsibility.

Section 101(a) of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires that the Secretary "establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and collect and account for such amounts in a timely manner" (Attachment 1).

The financial accounting system is an integrated computer system that includes production reports submitted by lease/agreement operators and is designed to track minerals produced from Federal and Indian lands from the point of production to the point of disposition, or royalty determination, and/or point of sale. The financial accounting system also includes payment and sales volumes and values as reported by payors. The production and royalty volumes are compared to verify that proper royalties are received for the minerals produced. To carry out these responsibilities, MMS has issued rules governing production accounting at 30 CFR Part 216, Subparts A and B (Attachment 2).

2. How, by whom, and for what purpose will the information be used?

The production reports provide MMS with ongoing information on lease, unit, or communitization agreement (lease/agreement) and facility production, sales volumes, and inventories. The reports summarize all operations on a lease/agreement or facility during a reporting period. They identify production by the American Petroleum Institute well number and sales by product. Data collected are used as a method of cross checking reported production with reported sales. Failure to collect all of this information will prevent MMS from ensuring that all royalties owed on lease production are paid. Additionally, the data is shared electronically with the Bureau of Land Management (BLM), MMS's Offshore Minerals Management (OMM), Bureau of Indian Affairs, and tribal and State governments so they can perform their lease management responsibilities.

Form MMS-4054, Oil and Gas Operation Report, (OGOR), is a three-part form that identifies all oil and gas lease production and dispositions. The form is used for all production reporting for offshore Outer Continental Shelf and onshore Federal and Indian lands. Monthly production information is compared with monthly sales and royalty data submitted on Form MMS-2014, Report of Sales and Royalty Remittance, Office of Management and Budget (OMB) Control Number 1010-0140, to ensure proper royalties are paid on the oil and gas production reported to MMS. MMS uses the information from Parts A, B, and C of the OGOR to track all oil and gas from the point of production to the point of first sale or other disposition. To streamline preparation of modified reports, the operator has the option of modifying the reporting line (delete/add by detail line) or replacing (overlaying) the previous report).

Part A, Well Production. All operators submit Part A, Well Production, for each lease or agreement with active wells until such wells are abandoned and inventories are disposed (Attachment 3). Each line identifies a well/producing interval combination showing well status; days on production; volumes of oil, gas, and water produced; and any volumes injected during the report month.

Part B, Product Disposition. For any month with production volumes, operators submit Part B, Product Disposition, to identify the sales, transfers, and lease use of production reported on Part A (Attachment 4). A separate line for each disposition shows: (1) the volume of oil, gas, or water; (2) the sales meter or other meter identifier; (3) the gas plant for instances where gas was processed prior to royalty determination; and (4) the quality of production sold.

Part C, Product Sales From Facility. The lease operators who store their production before selling it must submit Part C, Product Sales From Facility (Attachment 5). Separate lines for each product identify the storage facility, sales meter if applicable, quality of production sold, beginning and ending storage inventory, volume of sales, and volumes of other gains and losses to inventory.

Form MMS-4058, Production Allocation Schedule Report (PASR) (Attachment 6), is submitted monthly by operators of the facilities and measurement points where production from an offshore lease or metering point is commingled with production from other sources before it is measured for royalty determination. MMS uses the data to determine whether sales reported by the lessee are reasonable. Each line identifies a lease or metering point and allocated sales or transfer volumes. Delivered production volumes are no longer reported. Space has been provided on each detail line for the operator's property name (area/block), and a column has been added for indicating whether the operator is injecting oil, gas, or both into the pipeline system. Beginning and ending inventory are no longer reported. To streamline preparation of modified reports, the operator has the option of modifying (delete/add by detail line) or replacing (overlaying) the previous report.

3. Does the collection involve the use of information technology, does it reduce the burden, and to what extent?

We have successfully implemented electronic information collection alternatives, and operators have benefited from these options. Operators significantly reduce the amount of their resources necessary to comply with our reporting requirements when they report electronically. Electronic reports result in more timely and accurate reporting at significantly less cost than paper reports. We also benefit from electronic reporting because it allows us to streamline our document processing, and reporting errors can be corrected very quickly. Companies reporting electronically receive an additional 10 days to submit their reports because we are able to eliminate the data entry process. (See “Dear Reporter” letter dated October 9, 2002 (Attachment 7)). The enhancements became effective April 2003.

As an aid in completing the production reporting forms, MMS furnishes a copy of the Minerals Production Reporter Handbook to every company or individual operator required to submit these forms. The handbook provides operators with the detailed reporting instructions and codes necessary for reporting their information correctly. We also have an electronic version of the Minerals Production Reporter Handbook and related forms available on our Internet Web page.

We provide an OGOR form and "Help" text via the Internet, which will allow reporters to make a template with static fields that can be used routinely each month. In addition, operators have the capability to submit raw data files by Internet transfer or electronic data interchange (EDI). Operators who have very few properties and do not own a personal computer must obtain approval by MMS to report on paper. The criteria for approval is: you are a small business as defined by the U.S. Small Business Administration and you have no computer, no resources to purchase a computer or contract with an electronic reporting service, nor access to a computer at a local library or other public facility.

This ICR is already in compliance with the Government Paperwork Elimination Act. It is estimated that approximately 95 percent of responses are received electronically.

4. Is the information duplicated by any other Federal agency, and can similar information be used or modified for this collection?

MMS minimized requests for duplicate report data from lease and facility operators by coordinating with BLM and OMM to share reference and production data. We electronically send all edited and corrected production data to BLM and OMM. However, MMS deliberately gathers some duplicate information from independent sources to corroborate data submitted.

Information already available to MMS is used wherever feasible. Information may be partially available at other levels of government. Most States require some of this information for production verification and tax assessment. In most instances, even though State records are available for inspection, they are not sufficient for royalty calculations or production verification. Necessary information is available only in the files of lessees and operators completing the forms, who already collect and maintain the information for their own purposes.

5. What is the agency doing to minimize the burden on small businesses or other small entities?

Small organizations are among the potential respondents. MMS has carefully analyzed requirements to ensure that the information requested is the minimum necessary and places the least possible burden on industry. There are no special reporting provisions for small organizations. To reduce the burden on small organizations, MMS routinely conducts training sessions to assist operators in completing the forms correctly. We identify MMS employees as points-of-contact for specific operators and provide toll-free telephone assistance when operators have questions related to our handbook instructions and forms-filing requirements.

6. What are the consequences to the Federal program or policy if the information is not collected or is collected less frequently; and are there technical or legal obstacles to reducing the burden?

If this production information were collected less frequently, the Federal Government would not be able to monitor oil and gas lease sales and royalty remittances properly. The Federal Government and the Indian community could lose considerable revenue from undetected and/or underreported royalty. In addition, royalty accounting programs would not have current information on the sales, production, and disposition of specific products on which royalty is due, and current production could not be accurately and timely tracked. Also, other Federal Government agencies use the monthly data to monitor and inspect the leases. For onshore leases, BLM has the authority to authorize less-than-monthly reporting. They often grant such requests, especially when there are extended periods of no production.

7. Are there any special circumstances that require exceptions to 5 CFR 1320.5(d)(2) requiring respondents to: (i) report more often than quarterly, (ii) prepare written responses in fewer than 30 days after receipt, (iii) submit more than an original and two copies of any document, or (iv) retain records for more than 3 years?

This information collection operates under special circumstances, which sometimes require reporting inconsistent with the guidelines of 5 CFR 1320.5(d)(2) as follows:

a. FOGRMA requires funds derived from Federal and Indian leases to be distributed on a monthly basis. Failure to collect production information monthly would preclude verification that amounts collected and distributed were the amounts actually due and payable. Further, reports on oil and gas production are required monthly by the terms of most leases.

b. Respondents must maintain production and lease records for 6 years as provided by 30 U.S.C. 1713 or for a longer period if an audit has been initiated.

c. Some commercial information submitted by operators to MMS about Federal lease activity is proprietary. All information about Indian leases issued under the Indian Minerals Development Act of 1982 is held as privileged proprietary data. Standard Agency procedures provide strict security measures to control the use, storage, and access to such information.

8. What efforts did the agency make to consult with the public and a representative sample of respondents?

As required in 5 CFR 1320.8(d), MMS published a 60-Day review and comment notice on April 21, 2003 in the *Federal Register* (68 FR 19757) (Attachment 8). We received no comments in response to this notice.

9. Will payments or gifts be provided to respondents?

There will be no payment or gifts to the respondents.

10. What assurance of confidentiality is provided to respondents?

Commercial or financial information submitted to DOI relative to minerals removed from Federal and Indian leases may be proprietary. Trade secrets and proprietary information are protected in accordance with standards established by FOGRMA as amended (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)); and Department regulations (43 CFR 2). The Indian Minerals Development Act of 1982 (25 U.S/C 2103) provides that all information related to any Indian minerals agreement covered by the Act in possession of the Department shall be held as privileged information. Storage of proprietary information and access to it is controlled by strict security measures.

11. Does the information collected include any questions of a sensitive nature?

None of the information requested is considered sensitive.

12. What is the estimated reporting and recordkeeping "hour" burden?

The annual reporting burden is 76,630 hours. We expect approximately 2,500 reporters from 18,500 Federal lessees to submit the required information. The burden estimates include the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Using an average cost of $50 per hour, the total cost to respondents is $3,831,500.

<u>Respondent Annual Burden Hour Chart</u>

30 CFR Part 216 Subparts A and B	Reporting Requirement	Burden Hours Per Response	Annual Number of Responses	Annual Burden Hours
216.11; 216.16(a); 216.21; 216.40(d); 216.53(a), (b), and (c)	You must submit your Oil and Gas Operations Report, Form MMS-4054, in accordance with electronic reporting requirements . . .All reporting forms . . . should be mailed to the Minerals Management Service, Minerals Revenue Management, . . . The reporter shall submit accurately, completely, and timely, . . . all information forms and other information required by MMS. . . . The reporter shall have the burden of proving that a reporting problem was unavoidable. You must file an Oil and Gas Operations Report, Form MMS-4054, . . . You must submit a Form MMS-4054 for each well for each calendar month . . . MMS must receive your completed Form MMS-4054 . . . Electronically . . . Other than electronically	.25 hour (Electronic) .25 hour (Manual)	294,000 6,000	73,500 1,500
216.56(a), (b), and (c)	Any operator of an offshore Facility Measurement Point . . . must file a Production Allocation Schedule Report (Form MMS-4058). You must submit a Production Allocation Schedule Report, Form MMS-4058, for each calendar month . . . MMS must receive your Form MMS-4058 . . . Electronically . . . Other than electronically. . .	.1167 hour (Electronic) .25 hour (Manual)	7,280 3,120	850 780
216.57	Operators who have been granted a reduced royalty rate(s) by BLM must submit a Stripper Royalty Rate Reduction Notification (Form MMS-4377) to MMS	Burden covered under OMB Control Number 1010-0090.		
		TOTAL	**310,400**	**76,630**

The actual number of operators reporting monthly and the actual number of reporting transactions (documents per month) reported monthly fluctuates as leases/agreements cease production, new leases/agreements are brought into production, and operators change.

13. What is the estimated reporting and recordkeeping “non-hour” cost burden of the collection of this information, excluding any costs identified in Items 12 and 14?

There is a substantial decrease in the “non-hour” cost burden because the reengineering conversion is completed. At this time, the reporters require access to the internet through a subscription to an internet provider service. This annual subscription rate is estimated at $240 per reporter.

We estimate that 2,500 lease operators report monthly to MMS. MMS provides operators with reporting options that have little or no startup costs. This includes the MMS-provided Web site for reporting with "Help" text. Seventy-eight percent of current operators report less than 100 lines per month and could easily make use of this new option at no cost to themselves. Currently most operators report electronically. Exemptions are permitted for operators meeting certain requirements to report on paper.

Additionally, any operator may choose to contract with an electronic reporting service. There are numerous reporting services that can provide electronic reporting at a reasonable cost. Most of the data is information reporters keep on a day-to-day basis.

14. What is the estimated annualized cost to the Federal Government?

The estimated annualized cost to the Federal Government is $953,000. This estimate consists of the cost of directly handling the forms including:

- The estimated cost of a vendor to handle electronic report submissions and EDI equipment is $140,000;

- Data entry support costs directly related to the processing of those forms which are manually prepared and submitted by operators, including personnel, and overhead costs are currently estimated at $106,000;

- Direct personnel to correct lines that do not clear our system edits or to answer questions from reporters on how to report required information are estimated at $430,548; and

- Other-than-ADP costs, such as mailroom processing and filing costs are estimated at $193,000.

These estimated costs are collected from individual contracts monitored by MMS. Using an average cost of $50 per hour, the total estimated cost to the Federal Government is $953,000.

15. Is the agency requesting any program changes or adjustments reported in Items 13 and 14 of Form OMB 83-I?

The currently approved OMB inventory is 89,129 annual burden hours. We are reducing the burden to 76,630 hours—a reduction of 12,499 hours. This adjustment reflects a more accurate estimate based on actual historical response data of companies reporting electronically.

16. Are there plans for tabulation and publication of the results of the information collection?

The data collected will not be tabulated and published for statistical use.

17. Is the agency seeking approval to not display the expiration date?

No. We will display the expiration date of OMB's approval on Forms MMS-4054 and MMS-4058.

18. Is the agency requesting exceptions to the certification statement in Item 19 of Form OMB 83-I?

To the extent the topics apply to this collection of information, we are not requesting exceptions to the "Certification for Paperwork Reduction Act Submissions."

B. Collections of Information Employing Statistical Methods

This section is not applicable. We will not employ statistical methods in this information collection.